

Australasian Accounting, Business and Finance Journal

Volume 5
Issue 2 *Special issue on Financial Planning*
2011

Article 8

2011

Dealer Group or Financial Planning Group? A Brief Technical Note

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Recommended Citation

Santacruz, Lujer, Dealer Group or Financial Planning Group? A Brief Technical Note, *Australasian Accounting, Business and Finance Journal*, 5(2), 2011, 127-134.

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This technical note examines whether the industry practice of using the term dealer group when referring to a financial planning group contributes to the general perception that financial advisers are not objective when making financial product recommendations. An experimental design carried out through an online survey is used. This is supplemented by a direct comparison survey on the two terminologies. The results provide a case for the industry to adopt a new terminology.

Keywords

Financial planning



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Keyword: Financial planning

JEL Classification: G20

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Introduction

The present technical note aims to answer the following research question: in the personal financial planning industry, does the use of the term dealer group when referring to a financial planning group contribute to the general perception that financial advisers are not objective and on this basis, is there a case for changing the industry terminology?

The concept of personal financial planning (PFP) as a discrete discipline is relatively new. Up until the early 1990s, financial advice was provided by various professionals such as stock and managed fund brokers and insurance agents, who incidentally also have products to sell (Taylor 2009). This origin is evident in the fact that several of the current large PFP organisations identified in Munro 2010 are affiliated with stockbroking companies, fund managers and insurance companies, hence the industry practice of referring to PFP organisations as “dealer groups”.

A dealer group is defined as

“the distribution arm typically of funds management groups or banking institutions designed to offer investors financial planning services. Dealer groups often employ large numbers of financial planners, offering them training, licensing and support services. They also often provide financial planners with lists of recommended investment products from which to service their clients” (Financial Planners Directory 2010).

The PFP industry has been subject to significant and very adverse media commentary, a plethora of government inquiries and a general lack of trust within the community (FPA 2009), not the least helped by the recent series of failed investment schemes such as Storm, Opes Prime, Australian Capital Reserve and Westpoint.

The report of a recent parliamentary inquiry questioned whether PFP is a sales industry or an advice industry (Ripoll 2009). It alluded to

“the industry’s structural tensions that are central to the debate about conflicts of interest and their effect on the advice consumers receive. While clients seek out financial advisers to obtain professional guidance on investment decisions that will serve their interests, financial advisers effectively act as a critical distribution channel for financial product providers, often through vertically integrated business models or the payment of commissions and other remuneration-based incentives. ASIC described the industry as still being characterised by its distributive function, with financial advisers usually playing a dual role of providing advice services to clients and acting as the sales force for financial product providers. Approximately 85% of financial advisers are associated with a product provider so that many advisers effectively act as a product pipeline. Of the remainder, the vast majority receive commissions from product manufacturers and so have incentives to sell products”.

Although this appears to be a gloomy assessment, voices within the industry have been showing a sincere desire to professionalise the industry (Brown 2007).

Within this context, the author feels that it is worth asking whether the PFP industry is served by its continued use of the term “dealer group”. Having been just carried over from a previous stage in the industry’s evolution, it may be archaic and inconsistent with the direction (i.e. professionalising the industry) that the industry hopes to proceed. It may also not be accurate to use it to refer to every PFP organisation, as the parliamentary inquiry indicated that around 15% of financial advisers are not affiliated with a product provider. The author offers “financial planning group” as an alternative terminology.

Review of Literature

To the author's knowledge, there has been no previous research on the effect of industry terminologies on the public's perception of the industry. However, there are examples of occupations that have adopted alternative names perhaps to avoid any previous negative connotations (e.g. secretary to administrative professional, stewardess to flight attendant).

A classic experimental study on the effect of physical appearance on the perception of guilt of a hypothetical defendant (Efran 1974) provided the methodological framework for this paper. In this previous study, a case summary that has equal elements of guilt and innocence was written for a hypothetical defendant. An experimental group was randomly divided into two, and each subject was provided the same case summary except for the accompanying photograph which showed a plain-looking individual for one group and an attractive individual for the other group. A significantly higher percentage of the subjects rendered a guilty judgement on the plain-looking defendant compared to the attractive defendant.

A similar within-subjects, two stimuli design (Leedy & Ormrod 2005) is used in the present paper. Although there are two experiment sub-groups, random assignment of the subjects approximates presentation of the two stimuli to the one group. In the present paper, the use of different terms "dealer group" and "financial planning group" takes the place of photos of a plain-looking and an attractive individual, respectively. A statement educating the subjects that financial advisers usually operate under the umbrella of a dealer group/financial planning group that is also involved in selling financial products takes the place of the case summary. A negative response to the question of whether the subject feels that such a financial adviser would be objective when making product recommendations takes the place of a guilty verdict. The research methodology is discussed in more detail in the following section.

Data and Methodology

The present paper carried out the experimental study through a simple online questionnaire. Two versions of the questionnaire were prepared, differing only on the terminology used to refer to a PFP organisation. A standard email was broadcast to a list consisting of 2206 email addresses purchased from a direct marketing company, a random half of them receiving a link to one version of the online questionnaire and the other half the other version.

Subgroup 1 respondents answered the following main question:

Financial advisers commonly operate under the umbrella of a dealer group that is also involved in selling financial products (e.g. managed funds, insurance). Do you feel that a financial adviser belonging to a dealer group would be objective when recommending financial products to his/her clients? ☐ Yes ☐ Maybe ☐ No

Subgroup 2 respondents answered the following main question:

Financial advisers commonly operate under the umbrella of a financial planning group that is also involved in selling financial products (e.g. managed funds, insurance). Do you feel that a financial adviser belonging to a financial planning group would be objective when recommending financial products to his/her clients? ☐ Yes ☐ Maybe ☐ No

The key terms were emphasised so that they would serve as stimuli in the same manner as the defendant's photographs in the mock jury experiment cited.

Respondents from both subgroups answered the following classification questions:

Your experience with financial advisers: ☐ Have actually engaged the services of a financial adviser before ☐ Have not engaged a financial adviser before but is at least familiar

with the nature of the services that they offer and how they get paid ☐ Not familiar with the nature of the services that they offer and how they get paid

Your place of residence: ☐ NSW ☐ VIC ☐ QLD ☐ WA ☐ SA ☐ TAS, ACT or NT

Gender: ☐ Male ☐ Female

Age group: ☐ 18-29 yrs ☐ 30-39 yrs ☐ 40-49 yrs ☐ 50-59 yrs ☐ 60 yrs and above

Household income per annum: ☐ Below \$30,000 ☐ \$30,000-\$59,999 ☐ \$60,000-\$89,999 ☐ \$90,000-\$119,999 ☐ \$120,000 and above

In addition to the experimental main question described earlier, respondents were also asked to directly compare the two terminologies.

Subgroup 1 respondents answered the following final question:

The industry also uses the term financial planning group instead of dealer group when referring to the umbrella organisation. Would your answer to the very first question change if the term financial planning group was used instead? ☐ Yes, I would have felt that a financial adviser belonging to a financial planning group would be less objective ☐ Yes, I would have felt that a financial adviser belonging to a financial planning group would be more objective ☐ No, I would have answered the same way

Subgroup 2 respondents answered the following final question:

The industry also uses the term dealer group instead of financial planning group when referring to the umbrella organisation. Would your answer to the very first question change if the term dealer group was used instead? ☐ Yes, I would have felt that a financial adviser belonging to a dealer group would be less objective ☐ Yes, I would have felt that a financial adviser belonging to a dealer group would be more objective ☐ No, I would have answered the same way.

There was a total of 151 completed responses, or a response rate of 6.8%. The demographic representativeness of the respondents was assessed using as benchmarks the general Australian population and the population of financial planning clients. The latter was proxied by the demographic data for the 16,980 clients in 2009 of Finametrica, a company involved in providing online risk tolerance assessment for clients of financial advisers all over Australia. The demographic data is summarised in Table 1.

A Chi-square goodness-of-fit test indicated (at 0.05 level of significance) that both experiment subgroups individually and combined are representative of financial planning clients based on the four demographic variables, but not of the Australian population in general. The author believes that this is acceptable, as it is more important to study the perception of individuals who fit in the mould of ~~could potentially be~~ financial planning clients.

Table 1
Demographic distribution (%) of respondents compared to benchmarks

Demographic variables and categories	Australian population (2006 Census)	Financial planning clients (Finametrica 2009 client base)	Experiment subgroups		
			Subgroup 1 Terminology used: Dealer Group	Subgroup 2 Terminology used: Financial Planning Group	Combined
Place of residence					
NSW	32.8	32.8*	21.6	37.7	29.8
VIC	24.8	24.8*	25.7	23.4	24.5
QLD	19.8	19.8*	27.0	18.2	22.5
WA	10.0	10.0*	9.5	5.2	7.3
SA	7.6	7.6*	13.5	9.1	11.3
TAS, ACT or NT	5.0	5.0*	2.7	6.5	4.6
Gender					
Male	49.4	56.7	55.4	63.6	59.6
Female	50.6	43.3	44.6	36.4	40.4
Age					
18-29 yrs	20.9	5.9	10.8	9.1	9.9
30-39 yrs	19.0	14.5	18.9	18.2	18.5
40-49 yrs	19.4	18.7	20.3	16.9	18.5
50-59 yrs	16.9	26.2	23.0	15.6	19.2
60 yrs and above	23.8	34.7	27.0	40.3	33.8
Household income pa					
Below \$30,000	21.9	18.7	18.9	22.1	20.5
\$30,000 - \$59,999	38.5	23.1	32.4	19.5	25.8
\$60,000 - \$89,999	14.5	20.3	14.9	29.9	22.5
\$90,000 - \$119,999	13.6	16.6	13.5	16.9	15.2
\$120,000 and above	11.5	21.3	20.3	11.7	15.9

*data not available, assumed same distribution as Australian population

Results and Discussion

The results of the experimental study are summarised in Table 2. In addition to the aggregate results, the responses for the various demographic categories are also compared to see if the patterns apply across. Some of the categories have been merged to avoid small numbers in the analysis.

The aggregate figures indicate that a larger percentage feels a financial adviser is “guilty” of not being objective when the term dealer group is used. Looking at the figures for the categories under the variable “experience with financial advisers”, it is interesting to note that the difference is most pronounced for the category “not familiar with the nature of the services that they offer and how they get paid”. One possible explanation for this is that respondents under the first two categories were largely influenced in their responses by previous knowledge of and experiences with advisers, while respondents under the third category relied mainly on the information presented in the questionnaire. In a way, responses under the third category would be closest to the situation in the mock jury experiment cited, where the subjects relied solely on the information presented during the experiment.

Table 2
Summary of responses to experimental question

Demographic variables and categories	Number and percentages saying adviser would not be objective	
	Subgroup 1 Terminology used: Dealer group	Subgroup 2 Terminology used: Financial planning group
Aggregate results	26/74 (35.1%)	23/77 (29.9%)
Experience with financial advisers		
Have engaged before	10/29 (34.5%)	12/37 (32.4%)
Have not engaged but familiar	11/28 (39.3%)	10/26 (38.5%)
Not familiar	5/17 (29.4%)	1/14 (7.1%)
Place of residence		
NSW	12/35 (34.3%)	14/47 (29.8%)
VIC		
QLD	14/39 (35.9%)	9/30 (30.0%)
WA		
SA		
TAS, ACT or NT		
Gender		
Male	11/41 (26.8%)	14/49 (28.6%)
Female	15/33 (45.5%)	9/28 (32.1%)
Age		
18-29 yrs	15/37 (40.5%)	10/34 (29.4%)
30-39 yrs		
40-49 yrs		
50-59 yrs	11/37 (29.7%)	13/33 (39.4%)
60 yrs and above		
Household income pa		
Below \$30,000	13/38 (34.2%)	5/32 (15.6%)
\$30,000 - \$59,999		
\$60,000 - \$89,999	13/36 (36.1%)	18/45 (40.0%)
\$90,000 - \$119,999		
\$120,000 and above		

This explanation appears to be supported by the results for the other demographic variables. The observed general trend is reversed for older, higher income males, who are the types that are well aware of the negative publicity surrounding financial advisers and are again largely influenced in their responses by previous knowledge.

The results for the direct comparison question are summarised in Table 3. In addition to the aggregate results, the responses for the various demographic categories are also compared to see if the patterns apply across. Some of the categories have been merged to avoid small numbers in the analysis.

While a greater percentage of the respondents said that they are not affected by terminologies, an overwhelming majority of those who are felt that financial advisers belonging to a financial planning group would be more objective. This is consistently true across all categories of the demographic variables.

Table 3
Summary of responses to direct comparison question

Demographic variables and categories	Number and percentages saying:		
	Dealer group less objective/Financial planning group more objective	Dealer group more objective/Financial planning group less objective	No difference
Aggregate results	31/151 (20.51%)	12/151 (7.9%)	108/151 (71.5%)
Experience with financial advisers			
Have engaged before	17/66 (25.8%)	4/66 (6.1%)	45/66 (68.2%)
Have not engaged but familiar	7/54 (13.0%)	6/54 (11.1%)	41/54 (75.9%)
Not familiar	7/31 (22.6%)	2/31 (6.5%)	22/31 (71.0%)
Place of residence			
NSW	20/82 (24.4%)	6/82 (7.3%)	56/82 (68.3%)
VIC			
QLD	11/69 (15.9%)	6/69 (8.7%)	52/69 (75.4%)
WA			
SA			
TAS, ACT or NT			
Gender			
Male	21/90 (23.3%)	6/90 (6.7%)	63/90 (70.0%)
Female	10/61 (16.4%)	6/61 (9.8%)	45/61 (73.8%)
Age			
18-29 yrs	16/71 (22.5%)	6/71 (8.5%)	49/71 (69.0%)
30-39 yrs			
40-49 yrs			
50-59 yrs	15/80 (18.8%)	6/80 (7.5%)	69/80 (86.3%)
60 yrs and above			
Household income pa			
Below \$30,000	16/70 (22.9%)	5/70 (7.1%)	49/70 (70.0%)
\$30,000 - \$59,999			
\$60,000 - \$89,999	15/81 (18.5%)	7/81 (8.6%)	59/81 (72.8%)
\$90,000 - \$119,999			
\$120,000 and above			

Summary and Conclusion

The aim of this research note is to investigate whether the industry practice of using the term dealer group when referring to a financial planning group contributes to the general perception that financial advisers are not objective when making financial product recommendations. The results based on the experimental question and the direct comparison question appear to offer a case for the industry to adopt the term “financial planning group” in place of “dealer group”.

Of course, this will by no means be enough to address the image problems of the PFP industry, which as pointed out by the parliamentary inquiry report are largely structural. In fact, it may not have a significant effect among the public at this time, given the prevailing negative sentiment for financial planners. The proposed “re-branding” should however be considered as part of the long term efforts to professionalise the PFP industry.

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